

Message Text

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ACTION EB-04

INFO OCT-01 ISO-00 SS-04 NSC-04 NSCE-00 INR-01 CIAE-00

EUR-03 TRSE-00 FRB-01 /018 W
----- 063001

R 151743Z JUL 75

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 2894
INFO AMEMBASSY BONN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 10828

DEPARTMENT PASS TREASURY AND FRB

LIMDIS GREENBACK

E.O. 11652: XGDS-L

TAGS: EFIN, UK

SUBJECT: UK TREASURY ON EC FINANCE MINISTERS MEETING,
JULY 10; EC SUMMIT MEETING JULY 16-17; AND
INTERNATIONAL MONETARY DEVELOPMENTS

REF: BRUSSELS 6332 AND ROME 9990

SUMMARY: UK TREASURY NOT OPTIMISTIC ABOUT PROSPECTS FOR
INTERNATIONAL MONETARY DISCUSSIONS IN WASHINGTON IN LATE
AUGUST. UK TREASURY CONSIDERS THAT FRENCH HAVE MADE UP
THEIR MINDS THERE WILL BE NO PROGRESS IN AUGUST ON CON-
TENTIOUS ISSUES, AND SEES GISCARD'S CALL FOR A HEADS OF
STATE CONFERENCE TO DISCUSS INTERNATIONAL MONETARY SYS-
TEM AS AN ATTEMPT TO TRY TO PUSH WORLD BACK TOWARDS A
FIXED RATE SYSTEM AND SALVAGE FAILURE OF FOURCADE TO MAKE
PROGRESS ON THIS ISSUE WITH HIS OWN COUNTERPARTS. BRIEFS
BEING WRITTEN BY HM TREASURY FOR PRIME MINISTER WILSON
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FOR THIS WEEK'S EC COUNCIL AIM AT TRYING TO FRUSTRATE

GISCARD'S CALL FOR A HEADS OF STATE CONFERENCE OF BIG 5, TRY TO PUSH INTERNATIONAL MONETARY DISCUSSION BACK INTO IMF ARENA. IF GERMANS ACQUIESCE IN GISCARD'S CALL FOR A CONFERENCE, UK WILL NOT OPPOSE IT, BUT RATHER CONTINUE TO ATTEMPT TO FRUSTRATE FRENCH ATTEMPTS TO REESTABLISH FIXED RATE REGIME, WHICH UK BELIEVES GERMANS EQUALLY OPPOSE. (END SUMMARY)

1. HM TREASURY OFFICIALS REPORT THAT THEY ARE BRIEFING PRIME MINISTER WILSON FOR DISCUSSIONS TO BE HELD IN EC COUNCIL JULY 16 AND 17 IN AN ATTEMPT TO HEAD OFF GISCARD D'ESTAING'S PROPOSAL FOR BIG 5 HEADS OF STATE CONFERENCE WHICH THE UK SEES AS AN ATTEMPT TO PUSH THE WORLD BACK TOWARDS A FIXED EXCHANGE RATE SYSTEM. PRIME MINISTER WILSON IS BEING ADVISED TO (A) FRUSTRATE GISCARD'S ATTEMPTS AND (B) ATTEMPT TO CHANNEL THE DISCUSSIONS BACK INTO AN IMF PATH. AT JULY 10 EC FINANCE COUNCIL SESSION, FOURCADE STATED THAT GISCARD WOULD THIS WEEK AT THE EC COUNCIL BE PRESSING FOR A MAJOR MEETING OF HEADS OF STATE. UK INTERPRETS GISCARD INITIATIVE ALONG FOLLOWING LINES: THE FRENCH HAVE FAILED IN THEIR ATTEMPTS TO CONVINCE TREASURY OFFICIALS AND FINANCE MINISTERS TO RETURN TO A FIXED EXCHANGE RATE STANDARD. THEREFORE, GISCARD HAS DECIDED THAT IF IN THE GENERAL G-5 CONTEXT FOURCADE HAS BEEN UNABLE TO CONVINCE HIS FELLOW FINANCE MINISTERS OF THE WISDOM OF FRENCH POSITION, GISCARD WILL UNDERTAKE TO DO IT HIMSELF AT THE HIGHEST LEVEL, FEELING THAT HE IS "THE MOST CLEVER OF THE LOT", THE MOST KNOWLEDGEABLE HEAD OF STATE ON THE SUBJECT, AND THEREFORE LIKELY TO MAKE AT LEAST SOME PROGRESS.

2. THE UK WILL NOT OPPOSE THE HEADS OF STATE CONFERENCE IF THE GERMANS WANT IT, BUT WILL DO THEIR BEST TO FRUSTRATE ITS AIMS. UK BELIEVES GERMANS ARE EQUALLY OPPOSED TO FIXED RATES. THERE IS NO COMMON EC POSITION. UK SEES GISCARD'S AIMS AT THIS WEEK'S EC COUNCIL AS (1) STIFFENING THE EC SNAKE BY INCREASED MEMBERSHIP AND POLICIES AIMED AT A MORE FIXED RELATIONSHIP AMONG SNAKE MEMBERS; UK FOR THE FORESEEABLE FUTURE WILL OPT OUT OF THIS; (2) PROPOSING A BIG 5 HEADS OF STATE CONFERENCE

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AIMED AT WORLD-WIDE FIXED EXCHANGE RATE PARITY WITH IMF SANCTION. UK WILL ATTEMPT TO POINT OUT THAT IF THERE IS NO AGREEMENT AMONG EC MEMBERS, HOW CAN GISCARD EXPECT TO ARRIVE AT IT IN LARGER GROUPINGS. ONE SIDE EFFECT OF GISCARD'S HEADS OF STATE CONFERENCE CALL HAS BEEN TO INFURIATE SMALL EC COUNTRIES; NETHERLANDS FINANCE MINISTER REPORTED TO BE FURIOUS.

3. THE UK'S ASSESSMENT IS THAT IF A HEADS OF STATE CONFERENCE IS TO BE HELD IN THE FALL, IT WILL PRE-EMPT ANY SIGNIFICANT PROGRESS ON INTERNATIONAL MONETARY REFORM

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EUR-03 TRSE-00 FRB-01 /018 W

----- 063009

R 151743Z JUL 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2895

INFO AMEMBASSY BONN

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AMEMBASSY ROME

AMEMBASSY TOKYO

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LIMDIS GREENBACK

DURING AUGUST/SEPTEMBER IMF AND RELATED MEETINGS IN WASHINGTON. UK WILL BE PLEASED IF GISCARD INITIATIVE FAILS; UK TREASURY, THROUGH BRIEFING MATERIAL BEING PREPARED FOR PRIME MINISTER WILSON, WOULD OPTIMALLY HOPE TO CARRY ITS POSITION ONE STEP FURTHER BY OBTAINING EC REACTIONS THIS WEEK TO CONVINCE GISCARD THAT HE IS WRONG, AND THAT IT WOULD BE MORE SENSIBLE TO NEGOTIATE THE ISSUES IN THE IMF.

4. HM TREASURY SOURCE REPORTS THAT PRIOR TO LAST WEEK EC FINANCE MINISTERS' SESSION, NETHERLANDS TREASURER CONRAD ORT AND UK DELEGATE, JEFFREY LITTLER VISITED DE LAROSIERE IN PARIS IN ATTEMPT TO GAUGE THE FLEXIBILITY OF THE FRENCH POSITION; THEY CAME AWAY WITH IMPRESSION THAT FRENCH DO NOT EXPECT ANY PROGRESS TO BE MADE IN AUGUST/

SEPTEMBER. THESE VIEWS WERE PASSED TO IMF MANAGING DIRECTOR WITTEVEEN WITH VIEW THAT IT MIGHT BE WISER NOT TO ATTEMPT TO ACHIEVE AGREEMENT IN AUGUST ON MAJOR INTERNATIONAL MONETARY ISSUES IF NO PROGRESS APPEARS POSSIBLE. WITTEVEEN PAID A VISIT TO PARIS, WAS UNABLE TO SEE FOUR-
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CADE, SAW DE LAROSIERE IN HIS PLACE. UK TREASURY BELIEVES THAT WITTEVEEN IMPRESSION COINCID WITH ITS OWN THAT IT MAY BE NECESSARY TO PLAY DOWN AUGUST MEETINGS AND ATTEMPT TO REACH AGREEMENT IN JAMAICA IN JANUARY.

5. ON MAIN POINTS OF THE JULY 10 EC FINANCE COUNCIL AGENDA, SOURCE GENERALLY CONFIRMED INFORMATION REFTELS. CONSIDERABLE PRESSURE WAS PLACED ON GERMANY, WHERE RECOVERY IS SLOWER THAN HOPED. THE UK CONSIDERS THAT THE GERMANS MAY HAVE TO REFLATE BECAUSE OF POLITICAL PRESSURE. IN GENERAL, UK DELEGATES CAME AWAY FROM THE SESSION WITH FEELING THAT THE CLIMB OUT OF THE CURRENT RECESSION WILL BE LONG AND SLOW, AND THAT REINVIGORATION OF EC ECONOMIES WILL BE HARD TO ACHIEVE WITHOUT BUILDING UP FUTURE INFLATIONARY PRESSURES.

6. THE INCREASE IN EUROPEAN INVESTMENT BANK CAPITAL WAS MENTIONED IN PASSING AS A MINOR ISSUE, AT LEAST FOR THE UK. ON THE QUESTION OF JOINT COMMUNITY BORROWING, POSTMASTER GENERAL EDMUND DELL STATED THAT HE EXPECTED THERE WOULD BE AN OPPORTUNITY AFTER THE SUMMER MONTHS FOR THE UK TO PARTICIPATE IF IT WISHES, AND THE UK CONSIDERS THAT IT HAS AN UNDERSTANDING FROM EC PARTNERS ALONG THESE LINES. WHILE NOT CERTAIN, THE UK CONSIDERS THAT THE INITIAL EC BORROWING MAY BE IN THE RANGE OF \$1.2 BILLION, WITH \$200 MILLION GOING TO IRELAND AND THE REMAINING

BILLION SPLIT BETWEEN ITALY AND THE UK, IF THE LATTER DECIDES TO REQUEST PARTICIPATION IN THE FACILITY. SOME OF THE STEAM HAS GONE OUT OF THE EC BORROWING NEGOTIATIONS BECAUSE OF THE GENERAL EASE OF RAISING FUNDS THROUGH OTHER MEANS, I.E. THE EURO CURRENCY MARKETS, BUT SOME EC DELEGATES CONSIDERED THERE WILL BE MORE PRESSURE FOR BORROWING IN THE FUTURE, ESPECIALLY IF THERE IS AN OIL INVENTORY BUILD UP AND A COLD WINTER.

7. WHEN DISCUSSING RE-ENTRY OF FRANCE INTO THE SNAKE, FRENCH FINANCE MINISTER FOURCADE MADE WHAT THE UK CONSIDERED A NAUSEATING AND POINTED SPEECH TO THE EFFECT THAT IF ONLY OTHER COUNTRIES AND FINANCE MINISTERS WOULD RUN
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THEIR ECONOMIES AS WELL AS FOURCADE RAN HIS, THEY, TOO, COULD RE-ENTER THE SNAKE. UK DELEGATES WERE EQUALLY INFURIATED BY FOURCADE'S PRAISE OF THE MONETARY COMMITTEE'S SPLENDID JOB OF ALMOST REACHING COMMON AGREEMENT, WHICH UK SAW AS AN EFFORT TO PAPER OVER DISAGREEMENT AND HELP GISCARD ACHIEVE HIS OBJECTIVES. ORTOLI WAS CRITIZED AS BEING LESS THAN OBJECTIVE DURING THE SESSION. AT THIS POINT IN TIME, HM TREASURY CONTACTS APPEAR VERY COOL TOWARDS THEIR FRENCH COUNTERPARTS.

8. ON RELATED POINT, LAST WEEK BANK OF ENGLAND SOURCE POINTED OUT THAT IN REVIEWING PAGE 13 MINUTES OF SECOND SESSION OF INTERIM COMMITTEE, FOURCADE WHEN DISCUSSING GOLD RESTITUTION SAID IT SHOULD BE ON SAME RULES AS DISSOLUTION OF THE IMF, IN WHICH CASE GOLD IS DISTRIBUTED ACCORDING TO COUNTRIES' RESERVE POSITION IN IMF RATHER THAN ON BASIS OF QUOTAS, WHICH, OF COURSE, IS NOT FAVORABLE TO US OR UK. UNTIL SPOTTING THIS POINT, UK HAD NOT FULLY APPRECIATED FRENCH POSITION.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN POLICY POSITION, MINISTERIAL MEETINGS, FOREIGN EXCHANGE CONTROLS, REGIONAL ORGANIZATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JUL 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON10828
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Film Number: D750244-0433
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750756/aaaabxpv.tel
Line Count: 248
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 75 BRUSSELS 6332, 75 ROME 9990
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2003 by SmithRJ>; APPROVED <23 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UK TREASURY ON EC FINANCE MINISTERS MEETING, JULY 10; EC SUMMIT MEETING JULY 16-17; AND
TAGS: EFIN, UK, US, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006